ITEM NO: 8

	Executive 16th February 2009 **Report from the Director of Housing and Community Care**
	Wards Affected: ALL

Review of Housing Revenue Account Business Plan

Forward Plan Ref: H&CC-08/09-12

1.0 Summary

1.1 This report updates Members on the long-term financial position of the Council's Housing Revenue Account (HRA), following the commissioning of a report from consultants. It looks at the various options for addressing the long-term investment needs for the Council's housing stock.

2.0 Recommendations

2.1 To note the report and to agree that a further report to be submitted to Members once the stock condition data has been updated and the outcome of the Government's review of Council Housing Finance is known.

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3.0 Background

3.1 This report relates to the long-term financial issues associated with the Council's Housing Revenue Account (HRA) Business Plan (30 years). The HRA contains the income and expenditure relating to the Council's Landlord duties in respect of approximately 9,498 dwellings. These dwellings are accounted for separately from the Council's other services and activities, which generally form part of the Council's General Revenue Fund. The HRA has a particular set of regulations that differentiates it from the General Revenue Fund and it receives central Government financial support through the Housing Revenue Account Subsidy (HRAS) regime. The current basis of regulations and subsidy was introduced in April 1990 (as a result of the Local Government and Housing Act 1989).

3.1 The last full HRA Business Plan was completed in 2002 and received a '4 star' rating and was deemed 'fit for purpose' along with the 'Housing Strategy'. This meant that this document does not have to be submitted to government on an annual basis. The 2002 HRA Plan led to the establishment of Brent Housing Partnership (BHP) Ltd, the Council's Arms Length Management Organisation (ALMO). BHP was given the responsibility for the management and maintenance of the Council housing stock, including the delivery of the housing stock investment programme to meet the government Decent Homes Standard (DHS). BHP completed its Decent Home Standard investment programme in 2006, well ahead of the government's target date of 2010.

3.2 The government via the Housing Revenue Account Subsidy System created a major repairs allowance, which they originally intended would be sufficient for Councils to be able to build up financial reserves to allow the necessary major capital repairs that will be required to maintain stock in a good and modern condition. This is a situation that is not unique to Brent but is one that is being faced by an increasing number of authorities, whether they still retain their stock on a traditional basis or have set up- an Arm Length Management Organisation.

3.3 Given overall levels of concern regarding the long term investment problems and the future of the HRA, consultants were commissioned to look at this problem in detail and report back to us on options that are currently available to us. They were also asked to look into any potential future changes that the Government may be considering making. Tribal were the consultant commissioned to undertake this work. They have a long time recognised expertise in this area and have also been commissioned by CLG to look at the overall review of the HRA and are therefore in a unique position to advise on the government's current thinking on their future proposals for the HRA.

4. The main findings of the Housing Options Review by the consultants

4.1 Attached as appendix 1 is a copy of the consultants report.

4.2 The consultants have carried out a thorough desk top exercise on all the financial and stock data that is available. Generally they consider that this has been adequate for their purposes. There is however one area which they do consider further work is required. This relates to the figures used to estimate the costs required over a period of 30 years to keep the councils properties up to a modern "decent" standard. This figure is crucial in looking at whether any of the options suggested are viable. The current methodology used to calculate the figure relies on using current repair information that Brent Housing Partnership has as a result of both its general and decent homes repair programmes. A more traditional way would be to undertake a stock condition exercise. Using the current methodology results in a figure of £84k per property if you exclude South Kilburn properties and £88k if they are included. Tribal consider that this is significantly above figures for comparable councils and they have quoted figures nearer to £70k as reasonable. A stock condition exercise will therefore need to be actioned prior to any final decisions being made concerning the future of the Housing Stock.

4.3 The consultants have looked at the position from both a revenue and capital perspective. They conclude that if we do not make significant savings in our revenue expenditure then we are likely to be running into a deficit situation from year 5. If this was the only problem that we had to face then it is likely that we would conclude that the level of potential deficit could be managed. BHP have introduced an effective efficiency programme, which has already resulted in significant savings. Each year the budgeting within the HRA has always assumed savings both to take into account “normal “ efficiency measures but also to take into account potential stock loss.

4.4 However, the problems within the revenue account pale into relative insignificance when the long-term capital requirements are looked at. Using the investment assumptions referred to in paragraph 4.2 it shows that over 30-year period there would be a need to invest in the region of £816m (including South Kilburn housing stock) and £651m (excluding South Kilburn housing stock). Assuming that the government’s current arrangements remain unchanged Tribal estimates that the council would only have resources to meet just over 40% of these requirements over the 30-year period.

4.5 Taking account of the forecast expenditure in paragraph 4.4 above and the projected income over the 30 years period, the net shortfall in Housing Investment Need is projected to be £518m(including South Kilburn housing stock) and £414m(excluding South Kilburn housing stock).
The report the goes on to look at what options the council has for meeting the forecast shortfall.

5. Options

5.1 Stock Retention

5.2 The report looks at various options, two of the options would mean the ownership of the stock would remain with the council. The first considers whether the use of PFI would enable enough additional resources to meet the deficit. It details the pro’s and cons of using PFI ,all of which are well known to Brent given its experience of delivering its own PFI and acknowledges that this is an option that is being considered as a partial solution to the regeneration of South Kilburn. They do however conclude that a PFI can only at its best be a partial solution for some specific properties within the HRA and therefore could not be considered as a stand-alone option.

5.3 The second stock retaining option would be to take the properties out of the

Housing Revenue Account. This is an option that the government has been considering for some time and in 2006 used a number of ALMO authorities as pilots to see whether this option was viable. The Housing and Regeneration Act 2008, which has been given the Royal Assent in Parliament, allows councils to withdraw from the subsidy system by agreement with the Secretary of State. The government review team working on the HRA Subsidy Finance review is expected report to Ministers in spring 2009.

The benefits for a Council of leaving the subsidy system can be summarised as:

- Any surplus within the Housing Revenue Account can be retained. Currently council's with a notional surplus have to pay the value of the notional surplus to the Government. Brent is currently one of the few Councils still in receipt of subsidy, and is not predicted to generate a subsidy surplus until year 10 of our projections. On this basis, Brent would suffer an immediate annual loss if it left the subsidy system.
- The Council's housing finances would escape the uncertainties of the annual housing subsidy determinations.
- More certainty for longer term asset management
- Improve access to private finance by increasing opportunities to use land and other assets within the HRA more effectively for example by levering in private finance through partnerships with developers.

The risks associated with leaving the subsidy system are:

- Loss of future support. The Council's circumstances or the allowances available through housing subsidy may change so that if the Council remained in the subsidy system they would become more advantageous for the Council. These future benefits would not be available if the Council had left the subsidy system.
- The cost of buying out of the subsidy system may negate the benefit of escaping the annual payments to the Government.
- Interest rate risk. If a Council leaves the subsidy system it will no longer be protected from interest rate risk. Where the Council was previously in negative subsidy it is likely that it will require significant borrowing in order to afford the cost of buying out. If interest rates increase this may put the Housing Revenue Account under pressure**.**

5.4 This is a model which the government initially felt would be a way of councils being able to retain its own stock. It has been found that the current subsidy arrangements only make this viable for some councils who are already not receiving subsidy. Brent is one of a decreasing number of councils which is currently still in subsidy. The bottom line is that if we wanted to exercise this option now it would cost the council £18m and in practice is currently unworkable.

5.5 The government has recognised that the current arrangements are unworkable not just for Brent but for most councils and the current national review is looking at ways of making this proposal work. Within the report tribal indicate some of the current proposals that are being considered, which if implemented might make this a viable option. The likely timescale before any firm proposals are implemented is in reality likely to be another two years.

5.6 **Stock Transfer**

5.7 Tribal have looked at whether transferring the council's stock would be a viable option. They explain that with the setting up of the Homes and Communities Agency, there is likely to be greater flexibility in councils having to pre-register for stock transfer and registration will only last until 2008-09, if they wish to transfer , but any council would still need to have produced a viable business plan prior to any agreement to pursue a transfer. They have used a number of scenarios to see whether it would be viable to consider a stock transfer. One of the key criteria is whether it would be a transfer that produced negative or positive valuation. Looking at the most likely scenario which would be a transfer of stock excluding South Kilburn they conclude that assuming the current estimated long term investment costs (84k per dwelling) there would be a negative valuation of around £49m. This is what Brent would have to pay to any transferring organisation to take over Brent's stock. If however a lower figure is introduced (£70k) then the gap is reduced to £2m and in all likelihood could be reduced to nil.

5.8 This is therefore another illustration as to why having accurate figures on the true cost of long-term repair and renovation costs is absolutely vital. The report also looks at the position of Brent in terms of the level of overhanging debt and how under the current arrangements this could work to the financial advantage to the council and actually assist in managing the set up costs and possible additional costs to the general fund should a whole stock transfer occur.

5.9 **Future Role of Brent Housing Partnership**

5.10 The outcome of the Government's review into the Housing Revenue Account may have an important bearing on the future role of the Council's Arms-Length Management Organisation, Brent Housing Partnership (BHP). BHP was set up in 2002 to manage the Council's housing stock, which remains in the Council's ownership. The attached draft housing consultants' report in the Appendix 1 states that whilst the additional funding which resulted from setting up BHP has enabled significant levels of investment over and above that which the Council could otherwise have achieved, it is clear that this funding does not deal with the long term investment needs of the Council's ageing housing stock, nor does it provide any resources to enable future housing needs to be met. Once the Government publishes its proposals regarding the future of the Housing Revenue Account, officers will be in a better position to consider the future role of Brent Housing Partnership as well as consider the options regarding the future of the ownership and management of the Council's housing stock. At present, BHP is gradually developing on a piecemeal basis and there have been a number of housing schemes involving BHP which have been approved by Members in 2007 and 2008. However, Members have not made any decisions regarding the future development role of BHP. This issue will become more pertinent following the Government's review into the future of the HRA and will be important when the Council decides whether to retain or transfer its housing stock.

6 Conclusion

6.1 Officers envisaged that this report would update and engage Members' minds on the key financial issues facing the HRA over the next 30 years. Whilst the preliminary projections show that the HRA Operational account will be deficit over the next 30 years, the HRA annual budget will continue set within the current framework which ensure that the Council set a balanced HRA budget.

6.2 In terms of the HRA housing stock investment needs, the preliminary projections showed that the investment needs of the housing stock as assesses by the asset plan, are currently unaffordable. Further work will need to be done in line with the recommendations contained in their earlier stock condition gap analysis report in order that robust estimate of the housing stock investment need cab be obtained.

6.3 Although the final decision concerning the future of the stock cannot be made without further information, it can be delayed for a short period so a more informed decision can be made. However, it cannot be delayed indefinitely. A long-term decision needs to be made within the next two years and will be one of the first decisions that any new administration will have to make in 2010.

7.0 Financial Implications

7.1 This report is wholly concerned with financial issues associated with the long-term sustainability of the HRA. Members are informed that both the HRA revenue account will be in deficit through the forecast period of 30 years. Legally the HRA is not required to go into deficit and the report is providing information on the need to act to stop this happening in the future.

8.0 Legal Implications

8.1 The HRA was established by the Local Government Housing Act 1989. ("the 1989 Act"). Under section 74 of the 1989 Act, the Council is required to keep a separate Housing Revenue Account of sums falling to be credited or debited in respect of its housing stock. Sections 75 and 76 of the 1989 Act set out the rules for establishing and maintaining that account. Under section 76 of the 1989 Act, the Council is required to formulate in January and February of each year proposals for the HRA for the following year which satisfy the requirements of that section and which relate to income, expenditure and any other matters which the Secretary of state has directed shall be included.

2 In formulating these proposals the Council must secure that upon their implementation the HRA will not show a debit balance assuming that the best assumptions and best estimates it can make at the time prove to be correct. Put simply, the legislation requires the Council to prevent a debit balance, to act reasonable in making assumptions and estimates and to act prudently. The Act also requires the authority to review the proposals from time to time and make such adjustments as are necessary to ensure that the requirements, as set out above, continue to be met.

8.3 Section 313 of the Housing and Regeneration Act 2008, which adds section 80B to the Local Government and Housing Act 1989, makes it possible for councils and specified properties belonging to Councils to be excluded from the subsidy system subject to agreement with the Secretary of State and it allows the Secretary of State to make directions in relation to such agreements.

8.4 Further legal implications will be provided in the next report which will be presented to Members regarding the options and recommendations following the Council's stock condition survey and the Government's review regarding the future of the HRA. This will have important implications for the future role of Brent Housing Partnership.

9.0 Diversity Implications

9.1 This report, in the main informs members the on financial sustainability of the Council's HRA over a 30-year period. Officers are not currently proposing any option about the future of the HRA. However, officers will in the future report back on the diversity implications of final decisions taken by members regarding the long term future of the HRA.

10 Staffing/Accommodation Implications

10.1 The main purpose of the report is to update members regarding the long-term financial viability of the HRA. There are no staffing and accommodation implications arising from this report. However, officers will in the future report back on the staffing and accommodation implications final decision taken by members regarding the long term of the HRA.

11 Appendices

Housing Option Review by Tribal Consultants

12 Background Information

Housing Option Review by Tribal Consultants
BHP Asset Plan

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